

APPROVED MINUTES
APPROVED 01-27-14
CITY OF SCOTTSDALE
AUDIT COMMITTEE



MONDAY, NOVEMBER 18, 2013

CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251

REGULAR MEETING

PRESENT: Suzanne Klapp, Chair
Virginia Korte, Vice Mayor

ABSENT: Robert Littlefield, Council Member

STAFF: Hank Dabibi, City Treasurer's Office
Joyce Gilbride, City Treasurer's Office
Anna Henthorn, City Treasurer's Office
Jeff Nichols, City Treasurer
Kyla Anderson, City Auditor's Office
Joanna Munar, City Auditor's Office
Sharron Walker, City Auditor

GUESTS: Sandra Cronstrom, CliftonLarsonAllen

CALL TO ORDER

Chair Klapp called the meeting to order at approximately 4:02 p.m. A formal roll call confirmed the presence of Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, October 21, 2013

VICE MAYOR KORTE MOVED TO APPROVE THE MINUTES OF THE OCTOBER 21, 2013, REGULAR MEETING. CHAIR KLAPP SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF TWO (2) TO ZERO (0). COUNCILMAN LITTLEFIELD WAS ABSENT.

2. Discussion with CliftonLarsonAllen representatives regarding the City's FY 2012/13 Financial and Compliance Audit

Ms. Kyla Anderson of the City Auditor's Office noted that Ms. Sandra Cronstrom of CliftonLarsonAllen was in attendance representing the CPA firm that conducted the City's annual financial audit. Ms. Cronstrom first presented the results of the Comprehensive Annual Financial Report audit. She noted the CPA firm was able to issue an unmodified opinion, formerly known as a clean opinion. They also conducted a Single Audit because the City receives more than \$500,000 in federal financial assistance. In the Single Audit reports, there is a list of federal grants the City had and a couple findings the CPA firm identified. Also in the reports is the Communication with Governance, which is an overview of what the audit entails. It provides information such as the new GASB [Governmental Accounting Standards Board] statements implemented this year and any corrected or uncorrected misstatements.

The CPA firm revised its 2011/12 Single Audit report because it was discovered that a grant was not listed as being funded by ARRA money. This means that it should have been selected for testing because it was considered higher risk. They reissued the 2011/12 report, which will be uploaded to the Federal Audit Clearinghouse system shortly.

The external auditors also issued a HUD [Housing & Urban Development] report, a HURF [Highway User Revenue Fund] compliance report and an LTAF2 [Local Transportation Assistance Fund] compliance report. In August, the CPA firm completed audits of the Community Facilities Districts [CFD], the Municipal Property Corporation [MPC] and the Scottsdale Preserve Authority [SPA]. There is a Communication with Governance for each of these, and four of them have findings, so there is a separate Internal Control Communication with those.

Ms. Cronstrom noted the firm still has to file the expenditure limitation report with the State Auditor General's Office, a couple 990 tax returns and another HUD document. In response to Chair Klapp's inquiry, Ms. Cronstrom explained that if the City spends more than \$500,000 in federal funds, the Single Audit Act applies. The firm is required to do testing based on risk, including factors such as dollars that were spent and complexity of the program. Then those federal agencies get the Single Audit results.

City Auditor Sharron Walker explained that some federal agencies, such as HUD, have additional requirements like the financial schedule. The HURF and LTAF reports are similar state requirements. And the CFDs, the MPC and the SPA are component units in the City's financial report but also separate entities and therefore issue separate financial statements. So the annual financial audit has several components involved.

In response to Chair Klapp's inquiry, Ms. Cronstrom noted that the CPA firm does follow up on every finding during the following year while they are conducting that year's audit.

Vice Mayor Korte asked about the findings regarding the water and sewer enterprise funds where capital contributions and expenses were understated by \$10 million. Ms. Cronstrom explained that a capital contribution was recorded as an offset to the expense so it netted to zero. The audit firm recommended an entry to show both the capital

contribution revenue and the expense. So there was zero net change in the financial statements, but this was a financial presentation issue;

Committee members questioned if the audit should be sent to the full Council for approval. Ms. Walker stated she planned to ask the Committee if their preference was for the entire external audit report to be transmitted to City Council on the consent agenda or if they thought the Committee receiving it was sufficient. Chair Klapp commented that the full Council should receive the report. Vice Mayor Korte agreed, noting as a matter of transparency for City residents even though the report is available, it's easier if it's been on the agenda.

VICE MAYOR KORTE AND CHAIR KLAPP AGREED THAT THE CITY'S FY 2012/13 FINANCIAL AND COMPLIANCE AUDIT BE PLACED ON A FUTURE CITY COUNCIL AGENDA FOR APPROVAL. THE CITY AUDITOR WILL PLACE THE AUDIT ON A FUTURE CITY COUNCIL AGENDA.

3. Discussion and possible direction to staff regarding FY 2013/2014 1st Quarter Audit Follow-Up Report

Ms. Walker reviewed the FY 2012/2014 first quarter follow-up report.

Chair Klapp asked whether any of the recommendations that have not yet been implemented should be put into practice. Ms. Walker said there are a handful of recommendations where a department has chosen not to implement them but they should have received deeper consideration. These stay on the report for five years. Keeping the items on the report over a five-year period means the audit information is available to incoming managers who may want to take a fresh look at how their department functions. Also, that way the report provides historical information about trends.

4. Discussion and possible direction to staff regarding Status of FY 2013/14 Audit Plan

The auditors are currently working on the E-Verify Compliance, Cash Handling, Job Order Contracting, and Procurement Card audits.

Chair Klapp asked how sequestration had affected the E-Verify program. Ms. Walker said they were not in the process of testing during the government shutdown so are not sure how it may have affected compliance. State law requires the City to randomly test that the City's contractors are using E-Verify, and this year she included the Human Resources Department. Testing will be conducted in December, so it will be interesting to see if and how any contractors were affected. Chair Klapp commented that she was surprised more media attention had not been focused on the unavailability of E-Verify during sequestration.

Based on the anticipated audit status, Ms. Walker said the Committee will need one meeting rather than separate meetings in April and May 2014. Her current plan is to cancel the April meeting, but that could possibly change.

5 Discussion and possible direction to staff regarding agenda items for next Audit Committee meeting (January 27, 2014)

Ms. Walker noted the next meeting is scheduled for January 27, 2014. The topics to be covered are: the Claims Management and Fire Department Staffing audits, two Sunset Reviews, and the Audit Follow-up Status and TPRO reports.

Ms. Walker noted that a City Council meeting is also scheduled for January 27. The Committee Members agreed to meet at 3:00, given the length of the agenda. Ms. Walker said they might need to meet in a different room as the Kiva conference room is prepared in advance for the Council meeting. Staff will coordinate with Kathy Cross to confirm all the Committee Members' availability and send out a reminder ahead of time.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 4:27 p.m.

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